

## Projects

May 2009

### New Scottish Renewables Obligation Order Introduces Banding

The Renewables Obligation (Scotland) Order 2009 (ROS 2009) has now been approved by the Scottish Parliament and came into effect from 1st April 2009. This Bulletin highlights the main changes for both electricity suppliers and renewable electricity generators.

#### Summary

ROS 2009 introduces a banded renewables obligation whereby the number of megawatt hours needed to obtain a Scottish renewable obligation certificate (SROC) will vary for different methods of generation. The obligation requires electricity suppliers to submit a specified number of SROCs for each megawatt hour of electricity supplied to customers in Scotland. As before, the obligation can be satisfied by: (a) submitting the required number of SROCs; (b) paying a cash sum; or (c) a combination of (a) and (b).

Grandfathering provisions have been made to preserve a flat rate of one SROC per megawatt hour for certain projects which are already accredited or in some circumstances hold preliminary accreditation.

A new calculation mechanism has been adopted for ROS 2009 which means the renewables obligation will not be calculated using a fixed table but will be announced every October taking into account the amount of renewable generation available.

New higher bands will be introduced for wave and tidal power to replace the marine supply obligation. The Scottish Ministers will amend ROS 2009 to insert the higher bands once approved by the European Commission under state aid rules.

ROS 2009 no longer allows generating stations located in England, Wales and Northern Ireland to be awarded SROCs.

### UK Consistency (for now)

As with past Scottish renewables orders, the ROS 2009 follows closely the Renewables Obligation Order 2009 for England and Wales which also came into effect on 1 April 2009 (ROO 2009). However, this will change by the introduction of higher bands for wave and tidal power in Scotland. See "Wave and Tidal" below. Also, Alistair Darling indicated in his 2009 Budget that the bands for offshore wind will be increased for those developments, meeting specified completion criteria and placing orders before April 2011. It has not been confirmed whether this will be replicated in Scotland but given the current status of offshore wind developments in Scotland it is unlikely that many developers in Scotland would benefit.

### What's different from 2007?

Fundamentally, not much has changed from the Renewables Obligation (Scotland) Order 2007 (ROS 2007). The main changes are as follows:

#### Banding

Under ROS 2007 SROCs were issued to operators of generating stations at a flat rate of one SROC for each megawatt hour of electricity generated from eligible renewable sources.

Under ROS 2009, to vary the support available for different technologies, a SROC will be issued for fractions or multiples of a megawatt hour of electricity generated depending on the technology employed by the generating station. The bands have been set based on the level of support which various technologies are thought to require in order to incentivise their development.

So where a technology is currently commercially deployable e.g. landfill gas, one megawatt hour of electricity will attract less than one SROC (four megawatt hours of electricity must be generated by landfill gas before one SROC will be awarded).

Where a technology is further from commercial deployment e.g. offshore wind or tidal power, one megawatt hour of electricity will attract more than one SROC. In the case of tidal power, one SROC will be awarded for every ½ megawatt hour of electricity generated (i.e. two SROCs per megawatt hour).

Certain technologies such as onshore wind will continue to obtain one SROC per megawatt hour under the new bands. See “Banding Table” below for more examples.

The bands are subject to review in October 2010 and at four year intervals thereafter. The bands can be reviewed at any time if certain conditions are satisfied including: the development of new technologies and significant changes in the costs of generating electricity from sources specified in the ROS 2009.

### Banding Table

| Example Generation Type                 | Amount of electricity per SROC |
|---|--------------------------------|
| Electricity generated from landfill gas | 4 megawatt hours               |
| Co-firing of biomass                    | 2 megawatt hours               |
| Onshore wind, Hydro-electric            | 1 megawatt hour                |
| Offshore wind, Dedicated biomass        | ⅔ megawatt hour                |
| Wave, Tidal, Solar                      | ½ megawatt hour                |

### Grandfathering

Certain types of generating station that were accredited for SROCs as at 11 July 2006 will continue to receive SROCs at the old flat rate of one SROC per megawatt hour. The object of these grandfathering provisions is two-fold. Firstly, it maintains the financial position of those existing operators generating from landfill gas and sewage gas whose SROC income would otherwise go down. Secondly, it prevents windfall income to existing offshore wind, wave and solar photovoltaic generating stations which have already been successfully developed.

The grandfathering provisions only apply to landfill gas and sewage gas generators for (i) existing generation capacity or (ii) increased generation capacity which is operational before 1 April 2011.

Less favourable grandfathering provisions apply to combined heat and power plants and to microgenerators where the capital investment required is considered to be comparatively low.

Grandfathering allows generators in certain circumstances to choose whether to keep a statutory grant awarded and the level of

SROCs based on their original banding or repay their statutory grants and move onto a higher banding and receive more SROCs accordingly.

Grandfathering is subject to review every four years but is currently to remain until 2027.

### Marine Supply Obligation

The requirement to meet part of the renewables obligation in Scotland by supplying a minimum amount of electricity generated from wave and tidal power in Scotland, introduced in ROS 2007 has been removed for ROS 2009. This is intended to be replaced by new higher bands for wave and tidal power. See “Wave and Tidal” below.

### Calculating the renewables obligation

The basic structure of the renewables obligation will remain the same as under previous renewables orders. Electricity suppliers are required to submit a specified number of SROCs to Ofgem for each obligation period (i.e. each year commencing on 1st April). As before this obligation can be satisfied by: (a) submitting the required number of SROCs (or renewables obligations

certificates obtained in other parts of the UK); (b) paying a cash sum; or (c) a combination of (a) and (b). SROCs will be issued by the Scottish Ministers to renewable electricity generators accredited under the ROS and can be acquired by electricity suppliers to satisfy, all or part of their renewables obligation.

Establishing the level of the renewables obligation is more complicated than under previous orders. Rather than a simple percentage being applied each year, a number of calculations will be done to establish the level of the renewables obligation for each obligation period. The calculations take into account: (i) the total number of megawatt hours expected to be supplied to customers in GB and NI during an obligation period; and (ii) the number of renewable obligation certificates likely to be issued for an obligation period. Both of these estimates are made by the Secretary of State under the ROO 2009 for the UK.

The Scottish Ministers will then carry out calculations to establish the level of the renewables obligation for Scotland. Essentially, the number of SROCs to be submitted for each megawatt hour of electricity supplied in any given obligation period will be the higher of (i) the figure set out in Schedule 1 to the ROS 2009, (0.097 for the obligation period commencing 1/04/09) and (ii) the figure arrived at by taking the estimated number of renewables obligation certificates likely to be issued during an obligation period, increasing the number by 8% and dividing it by the total number of megawatt hours estimated to be supplied.

The obligation is subject to a cap of 0.2 SROCs per megawatt hour of electricity supplied.

The Scottish Ministers must publish the final renewables obligation figure by 1st October preceding an obligation period. For the obligation period commencing on 1/04/09 the obligation is 0.097 SROCs for each megawatt hour of electricity supplied (or payment of the equivalent cash sum).

### Cross Border Accreditation

Generating stations located in England and Wales and Northern Ireland are now specifically excluded from receiving SROCs. This will prevent a generating station in England, for example, taking advantage of Scotland's proposed increased support for wave and tidal power (see below).

### Wave and Tidal

Higher bands are proposed to provide greater support for wave and tidal power in Scotland in place of the marine supply obligation. The new bands will award one SROC for every 1/3 megawatt hour generated from tidal power and every 1/5 megawatt hour generated from wave power.

Such increased support for tidal and wave power will constitute state aid in excess of what has already been approved for ROS 2009. The European Commission will therefore have to approve these increased bands. Once approved, the Scottish Government plans to amend the ROS 2009 to introduce these new bands.

This Bulletin is correct to the best of our knowledge and belief at the time of going to press. It is however written as a general guide, so it is recommended that specific professional advice is sought before any action is taken. We are required by law to protect personal data.

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